

Building a Business for the Long Term



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Whether you start a new business or purchase an existing one, the rules for success are largely the same. You need to learn how your business operates from the ground up. You do that by first performing every menial task required by the operation. Why? First, it sets the example for everyone in the company. Second, it assures that you know the fundamentals so you can learn manufacturing efficiencies and be able to pass them along to your staff.

Without question, understanding costs ranks at the top of the list for building a business that will stand the test of time. First and foremost, in most manufacturing labor may prove to be your biggest single cost. You need to evaluate what is both fair and realistic, based on your requirements and the available labor pool. Beyond labor, in order to gain a firm grip on your costs, you need to actually understand and perform each operation, including machinery, set-ups, software and the overhead.

Second to knowing your every cost, is understanding your customers and their markets. This means identifying the niche you are filling for them, knowing what they are willing and able to pay, understanding who they are and how to find them—especially when your product offering is very specialized and not standardized. Another critical component to your success involves understanding your core competencies—both as a business owner and as a company, in relation to your competitors. Base your marketing efforts on those core competencies to assure your success. Some contract manufacturers have higher than average costs, due to their operational requirements. This may limit their ability to increase sales, considering factors involved in onboarding a new client, such as: part design, mold design and manufacture, sampling, adjustments and finishing.

Know that you must have a growth plan. Every business will lose customers for reasons beyond their control. You have to be able to replace them. And, who wants to stand still? In order to execute a viable growth strategy, several practices are crucial. When you work with your customers, you must communicate the value you bring to them. In addition, be everything you can to your current customers. We recognized that our customers were struggling with their assembly. They were tied up sourcing materials, receiving shipments, managing inventory and doing their own assembly. We knew that if we could handle those functions, we could lower their costs—and assure them QC, as well. Acting as a sub-assembler resulted in a win-win; our customers saved money and we used it as an upsell to increase our revenue. Be aware that this type of relationship often requires an in-person, face-to-face presence to provide the right level of customer service, value and to reinforce your sincerity.

While nearly all businesses are extremely competitive today, don't overlook the value of creating good relationships with your competitors. It's a win-win for a variety of reasons, among them:

- Becoming their outsource for product overflow—or conversely, employing them in order to increase your own capacity.
- Using them as a sounding board to share business ideas and methods
- Understanding the current market conditions (are they busier than you are?)
- Exploring possible joint ventures to reduce risk and increase your output
- Either of you may acquire the other in the future

Once you have achieved a smooth-running, growing operation, you need to continue reinvesting in your business. For Exothermic, trying to secure our own facility became very important. Due to the capital-intensive nature of manufacturing, you are at a disadvantage if you rent your facility. Simply put, landlords have leverage over you, as it becomes increasingly cost prohibitive to move an operation. Consider that moving is expensive as well as disruptive. You often have to maintain two facilities until completing



the transition to your new location to provide uninterrupted service to your customers.

This is where cost-effective capital comes into play—knowing how and when to borrow money effectively. Conversely, when your business owns a building, you have equity—a tangible asset and a form of wealth generation. This is critically important to ensure a stable operating environment if your manufacturing operation is capital intensive, as most of them are. You need to sell that stability to your customers.

Reinvesting in your business is simply not optional today, it's mandatory. Everything is changing faster and faster—software, hardware, cyber security, migration to the cloud; all are necessary in today's manufacturing environment, in order to remain competitive. We even added solar panels, LED lighting and new energy efficient windows.

Success means keeping money in the bank. Have lines of credit available

when you (think you) don't need them. In truth, you never know when you will. The secret to liquidity involves living below your means. Resist the temptation to take all of the money out for yourself. Besides keeping funds in reserve, investing in talent pays off. In order to do that, you first need to invest in an attractive workplace. Above all, invest in people and train them. It's important to know what you can do well yourself and to invest in people that can handle other aspects of the business better than you can. If you want to keep them, you also need to provide benefits: sick pay, health insurance, disability and life insurance, HR support and vacation pay. Invest in ongoing education for yourself and for your management team. Tax laws change, economies change and you have to constantly entertain new options. Your business is like a living thing; you have to feed it. Think of it like your child: you have to nurture it, invest time in it, be patient and remain committed to it.

Above all, get out of the office. Have your people cover for you. Get out and meet experts; meet your customers.

Another important reason to leave money in the business: to reinvest in people, in order to build yourself out of your business, so it doesn't rely on you to function. Doing this allows you to have a life, minimize your own importance to the business. It's important to start doing this when you are younger. Why is this so important? Think about your eventual exit strategy. A business that does not rely on the owner has greater value at the time of sale. Instead, the value is on what the owner has created. That will generate a continuing stream of income for the new owner. 🍀

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